# Verizon-Frontier Transaction
# WC Docket No. 09-95

## Ex Parte Presentation
## Communications Workers of America
## November 19, 2009

# What We Will Discuss Today

1. **Standard of review**
2. **Status of state Commission reviews**
3. **Key questions FCC must investigate**
4. **Discovery request**
5. **Frontier's financial fitness problems**
6. **Tax avoidance is driving this transaction**

# Standard of Review

- Applicants bear burden of proof and must demonstrate transaction serves public interest by preponderance of evidence
- Public interest review includes:
  - Preservation and advancement of universal service
  - Accelerated deployment of advanced services
  - Impact on quality of communications services
- Commission must consider whether the acquiring party has the requisite "citizenship, character, and financial, technical, and other qualifications" (47USC Sec. 310(d) and 47USC Sec. 308(b))

# Commission must conduct independent, fact-based analysis of financial qualifications

- Commission must not repeat mistake in *Verizon/FairPoint* by dismissing commentators concerns as "speculative"
- Statement of Commissioner Michael J. Copps in *Verizon/FairPoint*

  "[This] Order relies almost entirely on the assertions of the applicants and makes no endeavor to get under the hood to confirm that these promises are realistic … The Order repeatedly deems the concerns raised by the transaction's opponents as 'speculative'… In weighting the public interest benefits of this transaction, I believe that it is incumbent on the Commission to determine whether the applicants' proposals are in fact speculative or real … We expect nothing less from the Federal Communications Commission. Disappointingly, the Commission did not heed this advice and gave little credence to the concerns raised in the record."
- CWA and other commentators concerns were not mere "speculation" – FairPoint is now in bankruptcy, service problems continue, broadband commitments not met
- Commission also dismissed concerns raised in MCI/WorldCom as "speculative." Two years later, MCI/World fraud and bankruptcy cost employees, retirees, and investors $200 billion
- Other Verizon spin-offs are in bankruptcy
  - Hawaiian Telecom (FCC approval 2005, bankruptcy 2008)
  - Verizon Yellow Pages/Idearc (spin-off 2006, bankruptcy 200*)

# Status of State Commission Reviews

- Oregon, Washington, West Virginia Commission staff and public advocates recommend disapproval
- Illinois consumer advocate and Attorney General recommend disapproval
- Ohio Commission in unprecedented move orders evidentiary hearings (first time in decades)

# Questions the Commission Must Investigate

- Will Frontier be able to finance the transaction and what will Wall Street demand to provide financing? Frontier needs to raise $3.3 billion, but it does not have a commitment for the financing.
- How will Verizon realign its operations in West Virginia and the 12 other former GTE states to provide the same functions that are currently provided centrally?
- How and when will frontier integrate Verizon's computer systems and operations in the former GTE states into Frontier’s systems and operations centers?
- How will Frontier achieve its promises to expand the level of broadband availability in Verizon’s service areas while investing less than Verizon has been investing in the same service areas? Frontier has not provided any state-specific plans, budgets, milestones or even goals; and to the best of our knowledge, it has not even visited central offices or other facilities of the properties it wants to acquire.
- How will Frontier achieve the projected synergy savings of $500 million per years? Frontier is projecting a 21 percent reduction in Verizon Separate Telephone Operations (VSTO)’ operating costs, but we do not know how this can be achieved without adversely affecting the quality, safety, and reliability of service it provides to the public.
- Does Frontier have the expertise, capability, and desire to maintain and expand the availability of VSTO's DSL service? What about VSTO’s FiOS high-speed Internet and video service?
- How will the transaction affect Frontier’s existing customers and its ability to expand broadband service to current Frontier areas that are underserved by services that is barely fast enough to meet the FCC’s outmoded minimal definition of “broadband?”

# Documents the FCC Should Request to Conduct an Independent, Comprehensive Review

1. All confidential testimony submitted by the Applicants and Intervenors in Illinois, Ohio, Oregon, Washington and West Virginia (This testimony contains many references to key confidential and non-confidential documents produced in discovery during the proceedings)
2. All documents provided by the Applicants under Hart-Scott-Rodino (HSR filings).
3. All documents related to this transaction prepared for either Applicants' Board of Directors.
4. All documents related to this transaction exchanged by the Applicants.
5. All documents related to this transaction prepared by either Applicants' advisors or consultants.
6. All documents related to this transaction prepared by either Applicants' staff or executives.
7. All spreadsheets related to this transaction prepared by either Applicants' employees, advisors or consultants, including specifically Frontier's "Pro Forma" model for this transaction and Frontier's "Synergies" projections for this transaction.
8. All cutover and realignment documents prepared by or on behalf of either applicant, with any documents relating to schedules to be updated monthly.

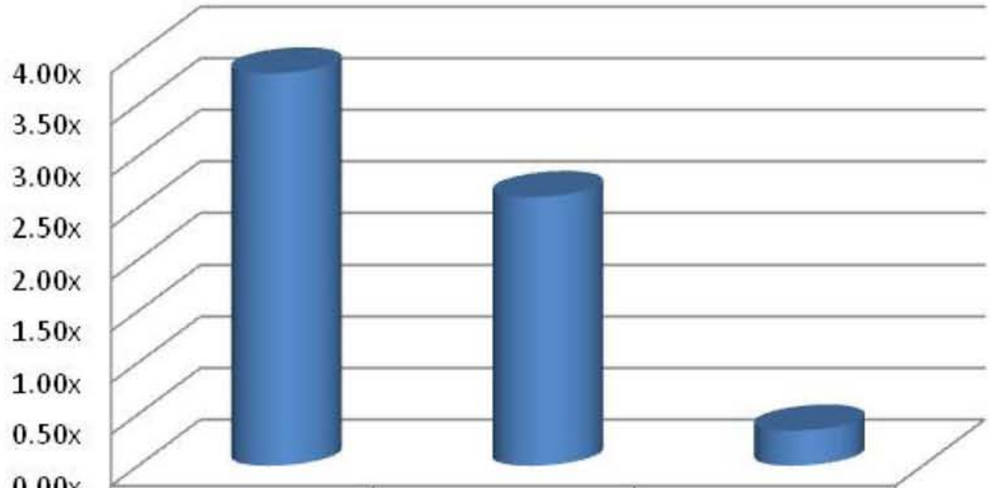
# Frontier is Not Financially Fit to Own and Operate Verizon's Separate Telephone Operations

Key points we will discuss

- Acquisition will significantly weaken VSTO
- Frontier's business model is not sustainable
- Applicants financial projections are not accurate

## 1. Acquisition will significantly weaken Verizon's Separate Telephone Operations

## Schedule 10. The Verizon Separate Telephone Operations' Leverage Ratio Will Increase Dramatically if the Frontier Deal is Approved




| | Frontier (Year-End 2008) | Combined 2008 Pro Forma | VSTO (Year-End 2008) |
|---|---|---|---|
| Leverage Ratio (Net Debt:EBITDA) | 3.80x | 2.60x | 0.34x |

Sources: WV Case No. 09-0871, Joint Application, p. 12, footnote 6; Verizon reply to CWA DR 32, July 21, 2009

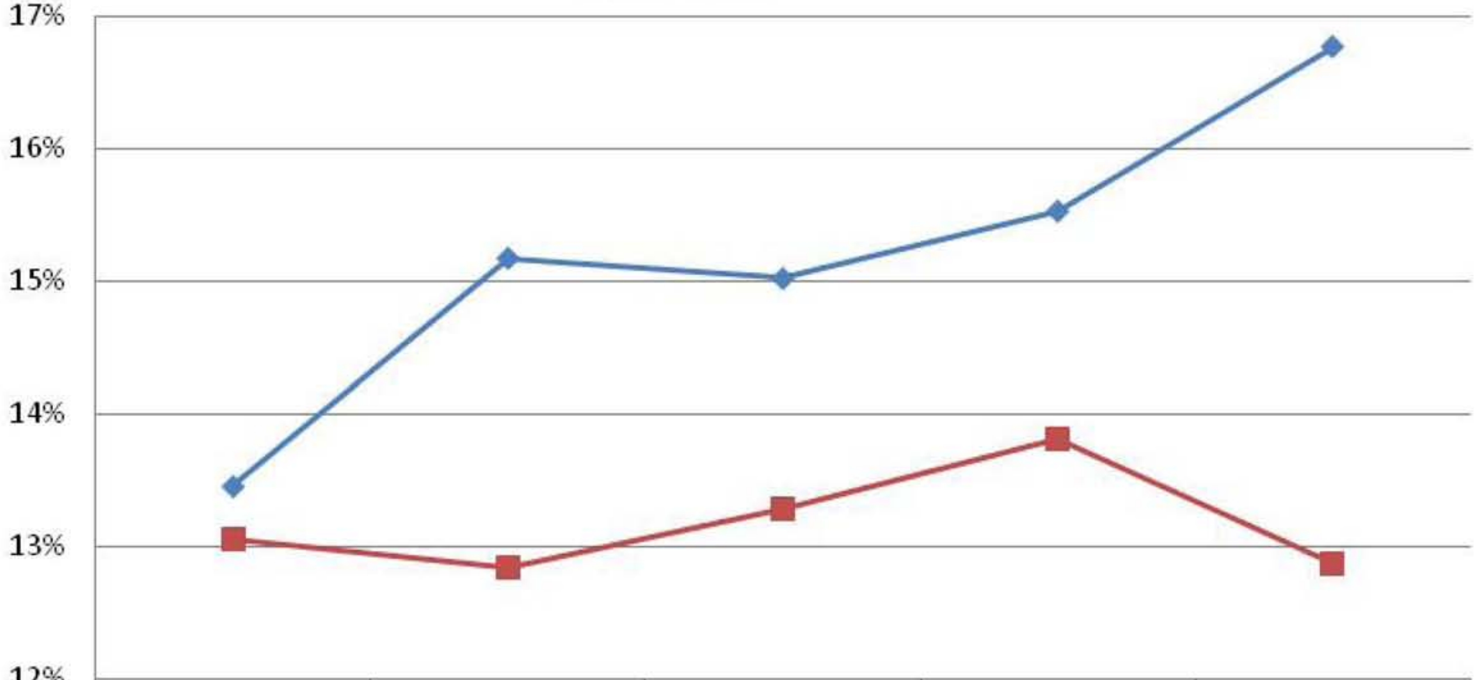
# Frontier Plans to Cut Cap-Ex Below VSTO Historic Levels

- Verizon invested between $703 million to $733 million in the VSTO infrastructure, 2005-2008
- Frontier does not plan this level of capital spending

# Schedule 14. Frontier and VSTO*

## Capital Expenditures as % of Revenues

2004-2008

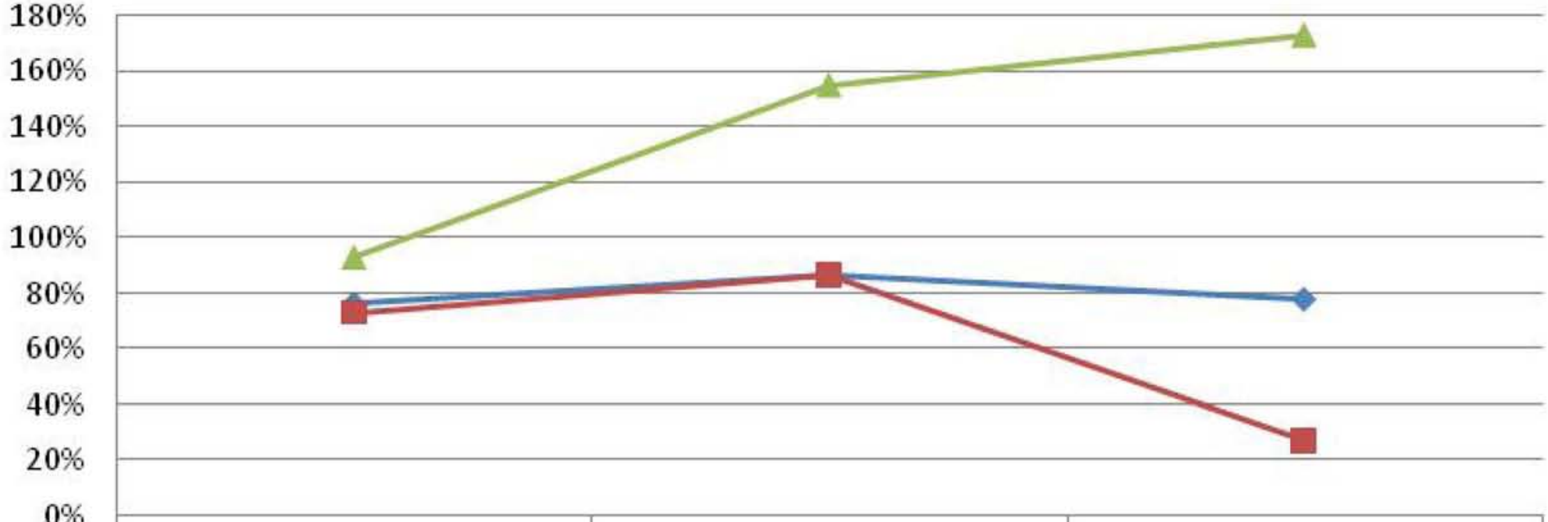



| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| VSTO* | 13.5% | 15.2% | 15.0% | 15.5% | 16.8% |
| Frontier | 13.1% | 12.8% | 13.3% | 13.8% | 12.9% |

* VSTO = Verizon Separate Telephone Operations

Source: Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, pages 16 and 19

# Schedule 12. Frontier, Verizon, and VSTO* Dividends** as % of Net Income

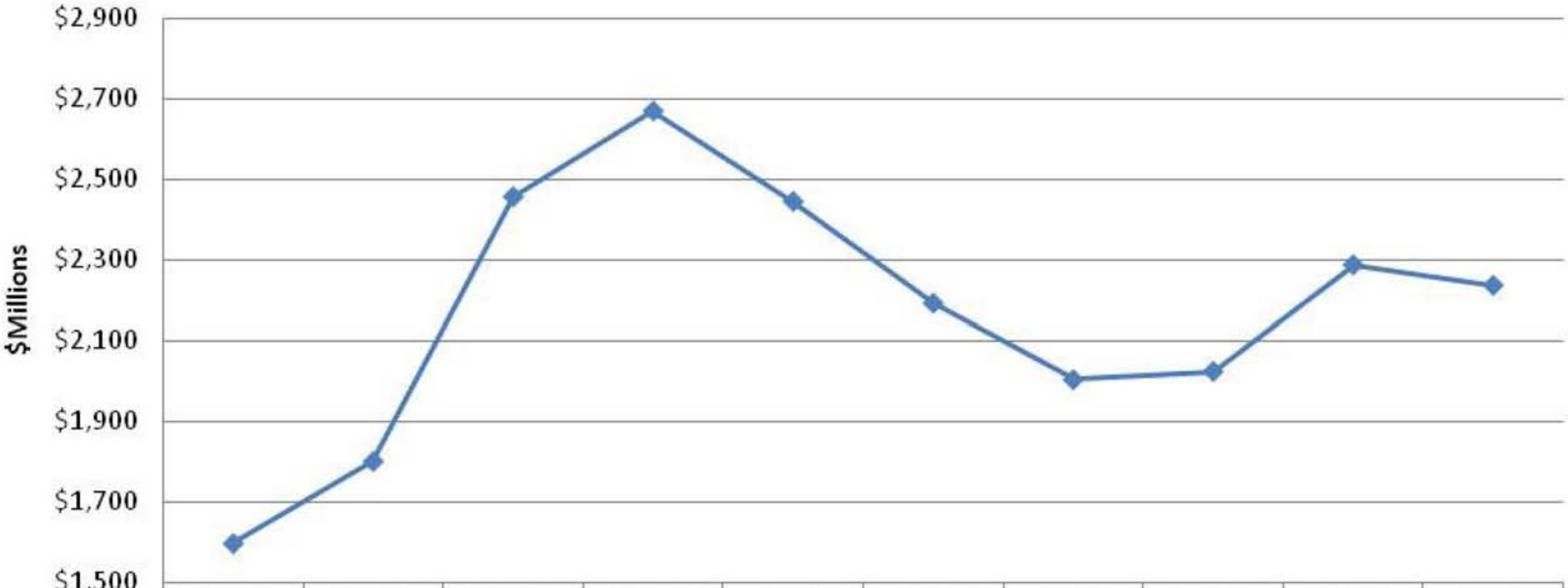



| | 2006 | 2007 | 2008 |
|---|---|---|---|
| Verizon | 76.1% | 86.5% | 77.7% |
| VSTO* | 72.9% | 86.4% | 26.8% |
| Frontier | 92.8% | 154.8% | 172.8% |

* VSTO = Verizon Separate Telephone Operations
** For VSTO, Parent Funding, Allocations, Intercompany Reimbursement as % of Net Income
Sources: Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, pages F-27 and F-78; Verizon SEC Form 10K, filed February 24, 2009, Consolidated Statements of Cash Flows, unpaginated

## 2. Frontier’s Business Model is Not Sustainable

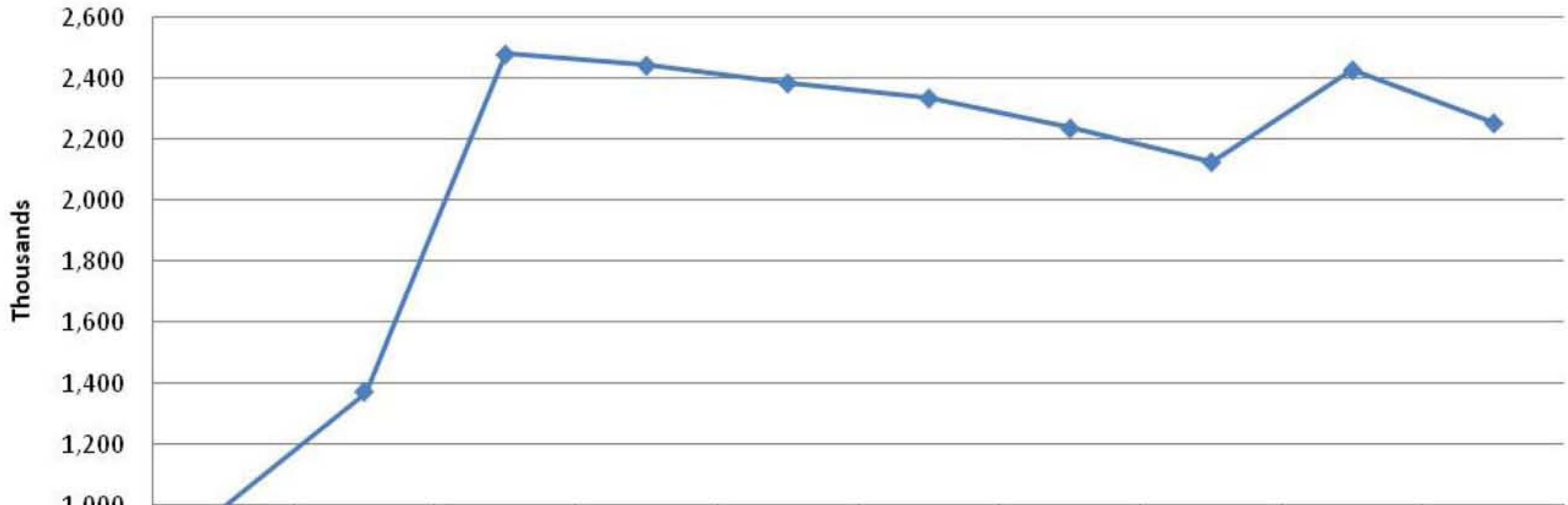
## Schedule 1. Frontier Communications: Revenues 1999-2008




| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | $1,598 | $1,802 | $2,457 | $2,669 | $2,445 | $2,193 | $2,005 | $2,025 | $2,288 | $2,237 |

Frontier SEC Forms 10K, filed March 9, 2001, March 24, 2003, March 14, 2005, March 1, 2007 and February 27, 2009; pages F-3, F-3, F-5, F-5, and F-5, respectively.

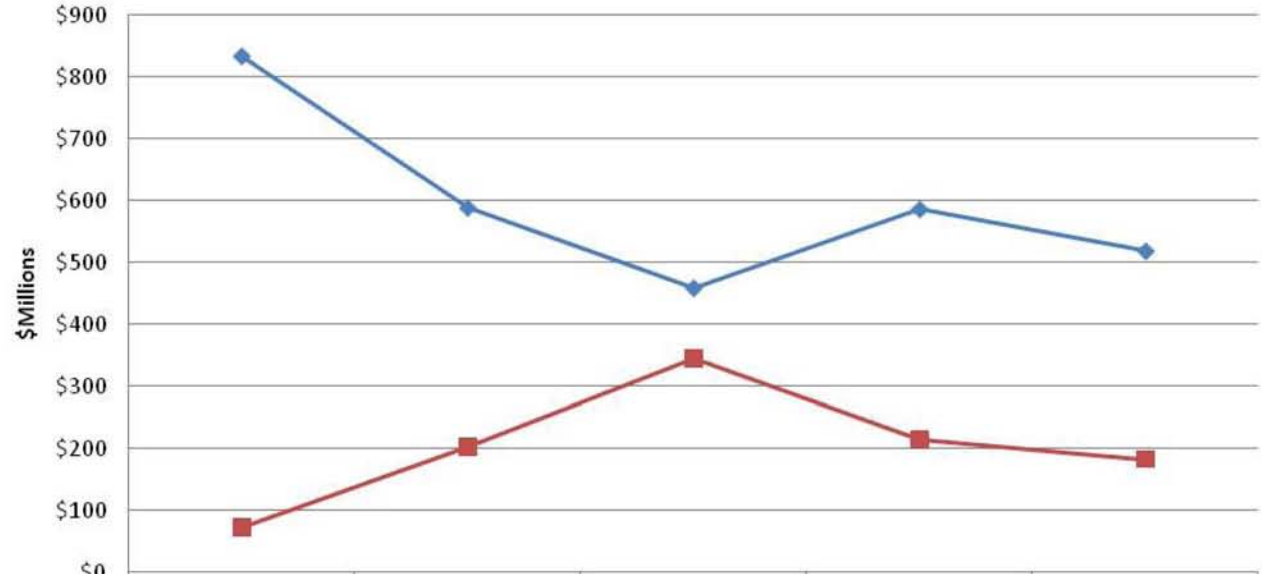
## Schedule 2. Frontier Communications: Access Lines 1999-2008




| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Access Lines | 997 | 1,371 | 2,481 | 2,444 | 2,386 | 2,336 | 2,238 | 2,127 | 2,429 | 2,254 |

Frontier SEC Forms 10K, filed March 9, 2001, March 24, 2003, March 14, 2005, March 1, 2007 and February 27, 2009; pages F-3, F-3, F-5, F-5, and F-5, respectively.

## Schedule 4. Frontier Communications: Payments to Shareholders vs. Net Income 2004-2008

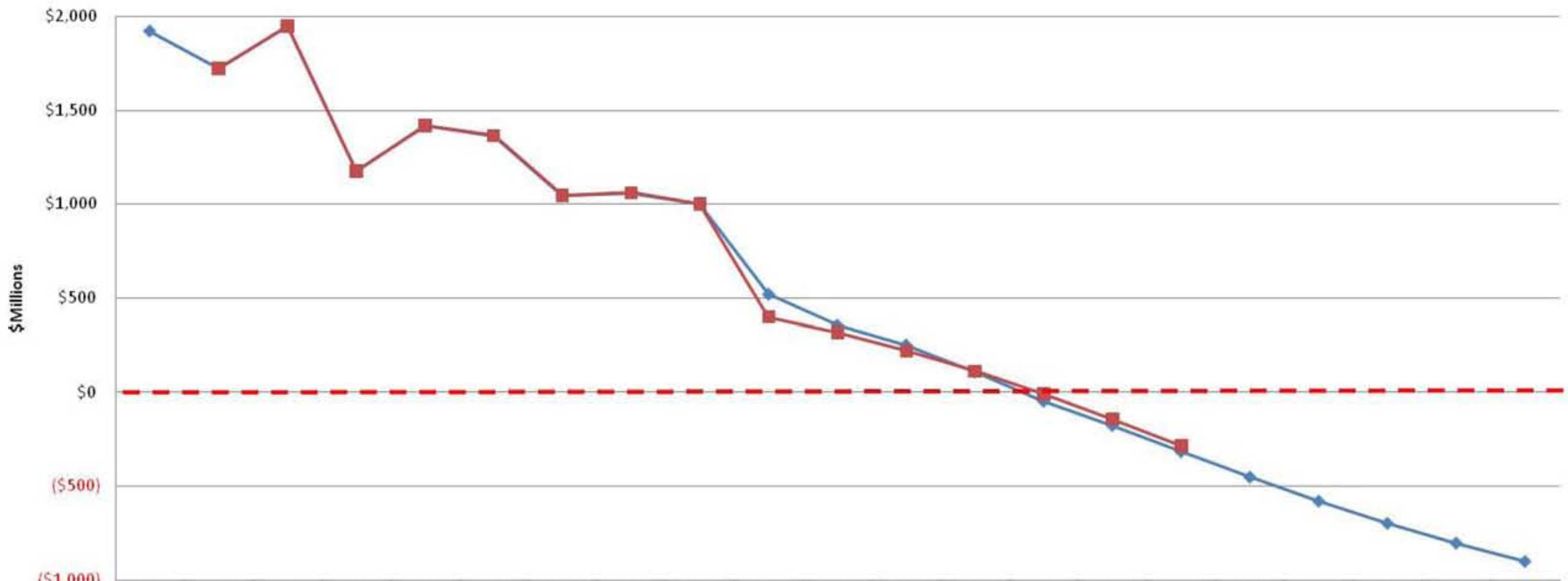



| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Payments to Shareholders (Dividends & Buybacks) | $833 | $588 | $459 | $586 | $518 |
| Net Income | $72 | $202 | $345 | $215 | $183 |

Note: Frontier began paying dividends and engaging in share repurchases in 2004.

Sources: Fronter Forms 10K filed with the SEC on March 1, 2007 and February 27, 2009; page F-8 in both filings.

## Schedule 6. Frontier Communications (Standalone)
## Total Shareholder Equity: 1999A-2019E



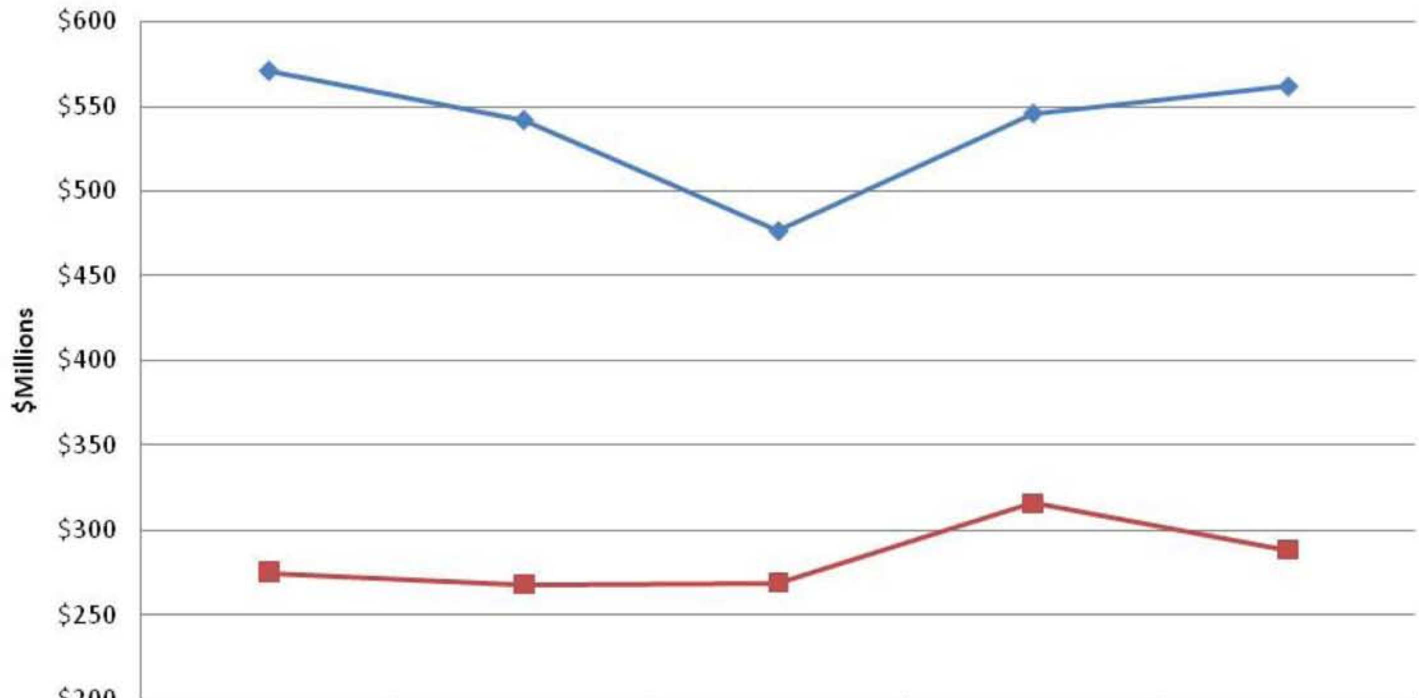

| | 1999A | 2000A | 2001A | 2002A | 2003A | 2004A | 2005A | 2006A | 2007A | 2008A |
|---|---|---|---|---|---|---|---|---|---|---|
| Goldman Sachs | $1,920 | $1,720 | $1,946 | $1,172 | $1,415 | $1,362 | $1,042 | $1,058 | $998 | $519 |
| Morgan Stanley | | $1,720 | $1,946 | $1,172 | $1,415 | $1,362 | $1,045 | $1,058 | $998 | $397 |

| | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Goldman Sachs | $355 | $252 | $108 | ($46) | ($175) | ($315) | ($451) | ($578) | ($696) | ($802) | ($899) |
| Morgan Stanley | $316 | $218 | $110 | ($10) | ($144) | ($288) | | | | | |

Sources: Goldman Sachs (November 4, 2009, Tab "BS," Row 49) and Morgan Stanley (November 11, 2009, Tab "BS and Cash Flow," Row 58), financial models for Frontier Communications. Projections are for Frontier on a standalone basis.

CWA

## Schedule 5. Frontier Communications: Depreciation & Amortization vs Capital Expenditures



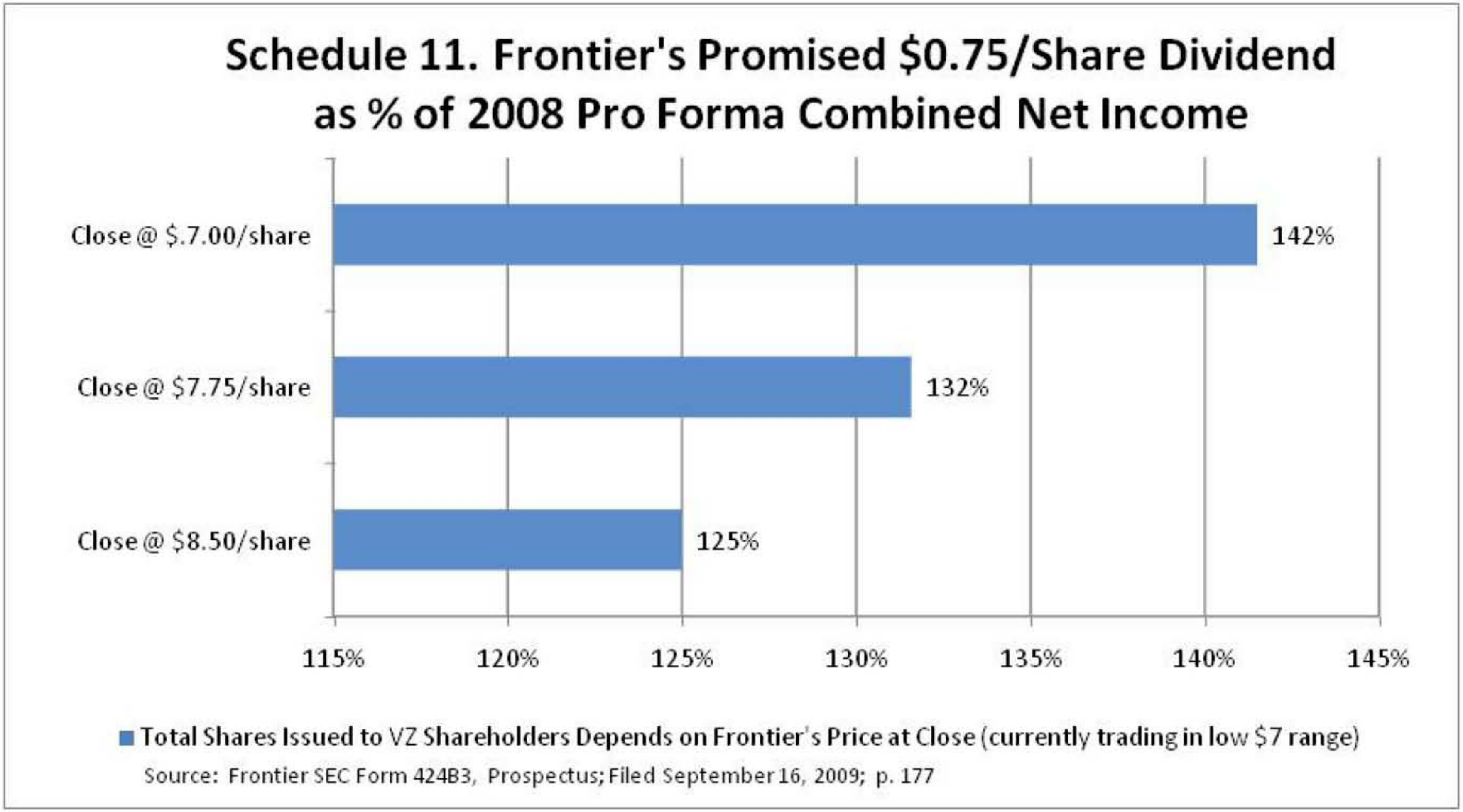

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Depreciation & Amortization | $571 | $542 | $476 | $546 | $562 |
| Capital Expenditures | $275 | $268 | $269 | $316 | $288 |

Source: Frontier SEC Forms 10K, filed March 3, 2007 and February 27, 2009, pages F-8 in both filings.

## Schedule 3. Frontier Communications
## Net Property, Plant & Equipment
## 2000-2009


| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| NET PP&E | $3,510 | $4,512 | $3,690 | $3,531 | $3,338 | $3,058 | $2,984 | $3,335 | $3,240 |

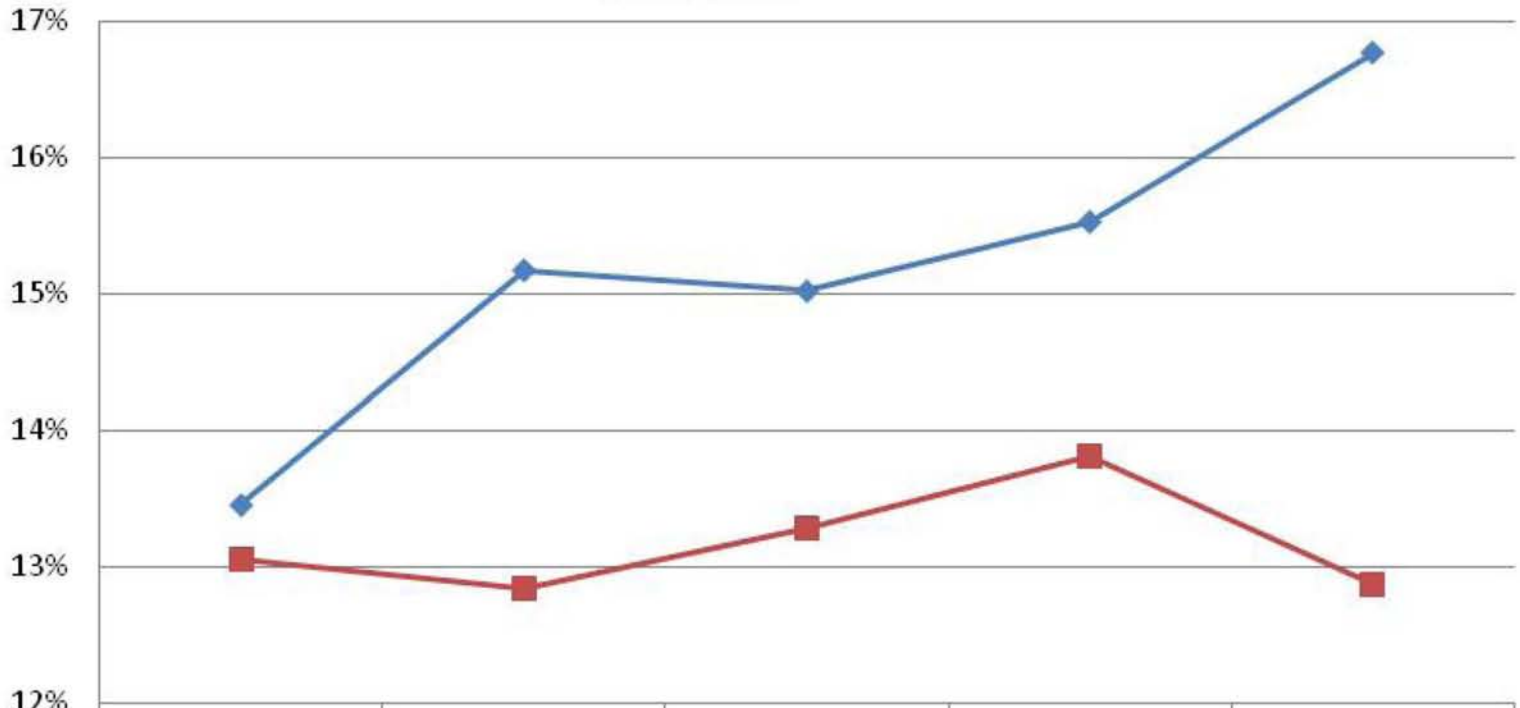
Frontier SEC Forms 10K, filed March 9, 2001, March 24, 2003, March 14, 2005, March 1, 2007 and February 27, 2009; pages F-3, F-3, F-5, F-5, and F-5, respectively.


Schedule 11. Frontier's Promised $0.75/Share Dividend
as % of 2008 Pro Forma Combined Net Income
Close @ $.7.00/share
142%
Close @ $7.75/share
132%
Close @ $8.50/share
125%
115%
120%
125%
130%
135%
140%
145%
Total Shares Issued to VZ Shareholders Depends on Frontier's Price at Close (currently trading in low $7 range)
Source: Frontier SEC Form 424B3, Prospectus; Filed September 16, 2009; p. 177

# Schedule 14. Frontier and VSTO*

## Capital Expenditures as % of Revenues

### 2004-2008

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# 3. Applicants' Financial Projections are Not Accurate

- Revenue projections are unrealistically optimistic
- $500 million so-called "synergies" are
  - **Not realistic**
    - **Projected "synergy" savings as a % of target's operating expenses:**

      **FairPoint/Verizon: 8-10%**

      **CenturyTel/Embarq: 9%**

      **Frontier/Verizon: 21%**
  - **Or, if real, would result in draconian service, workforce, maintenance cuts**
- We don't yet know financing costs

## Given these problems, why do the Applicants want this deal?

1. Frontier – Needs next acquisition to sustain business model a little longer
2. Verizon – Tax avoidance scheme
   - Takes advantage of Reverse Morris Trust corporate tax loophole -- $3.3 billion tax avoidance
   - Reverse Morris Trust only applies when sellers' shareholders acquire majority stake in new entity – in other words, Verizon can only sell to a smaller company to ensure tax-free transaction
   - Tax-avoidance is not in the public interest

# Conclusion

- Frontier is not financially fit to own and operate Verizon’s separate telephone operations
- Frontier will not have the financial resources to maintain quality communications services and invest in advanced services
- Public interest harms outweigh public interest benefits